DRAGONS IN THE WEST: LOCALIZATION STRATEGIES OF CHINESE MULTINATIONALS IN DEVELOPED ECONOMIES

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ABSTRACT

This study examines two localization strategies that Chinese Multinational Corporations (MNCs) use to improve the likelihood of success in penetrating developed markets: internally- and externally-oriented strategies. Internal strategies include those that give subsidiary managers greater discretion to fit their human resource (HR) practices to local norms. External strategies include networking strategies with external stakeholders designed to access local information and develop relationships of trust that facilitate doing business in new environments. Drawing on a sample of Chinese MNCs operating in the U.S., I show that both localization strategies provide important means to overcome liabilities of foreignness and origin and contribute to subsidiary growth. The extent of adoption of these strategies, however, reflects not only strategic considerations, but also institutional pressures from host and home countries. Host country regulatory pressures appear to induce network building, but home country institutions (the relative level of state ownership) are associated with lower devolution of HRM and network building to subsidiary managers, suggesting efforts to exert centralized control.

BIOGRAPHICAL SKETCH

Can Ouyang is a PhD student at School of Industrial and Labor Relations (ILR), Cornell University. He got his bachelor degree from Sun Yat-San University in China and master degree from Pennsylvania State University. His research focuses on strategic human resource management, with particular attention to the effect of human resource practices on emerging-market enterprises. He explores the organizational and environmental factors that facilitate or restrict the adoption of westernized human resource practices in emerging markets. He also collects data from foreign subsidiaries of Chinese multinationals and examines the conditions under which multinationals choose to devolve the decision making of human resource practices to their foreign affiliates.

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Introduction

Emerging market Multinational Corporations (MNCs) have recently accelerated their expansion into global markets. The outward foreign direct investment (FDI) from developing regions such as Asia, Africa, and Latin America amounted to over $445 billion in 2014, which was approximately 34% of total world FDI (UNCTAD, 2015). China, the largest developing country in the world, has taken the lead in a new round of global expansion. An increasing number of Chinese MNCs are penetrating foreign markets by acquiring existing assets, establishing foreign subsidiaries, and forming cross-border strategic alliances.

The expansion of Chinese MNCs is not limited to emerging markets, but also extends to developed countries in Europe and North America (Child & Marinova, 2014). FDI from China to the U.S. has increased more than two-fold from $3.3 billion in 2010 to over $9.8 billion in 2014 (Bureau of Economic Analysis, 2015). The returns on investment of Chinese MNCs in developed nations, however, often fall short of expectations. Air China, for example, raised major controversies in the U.K. for publishing brochures that encourage visitors to stay away from areas populated by ethnic minorities. The U.S. government banned Huawei and ZTE, the top two Chinese telecommunications equipment manufacturers, from acquiring U.S. companies and selling products to government agencies for security reasons.

As latecomers to global competition, Chinese MNCs suffer not only from liabilities of foreignness – that is, the higher cost of doing business as a foreign enterprise (Zaheer, 1995), but also liabilities of origin -- disadvantages and stereotypes associated with the country of origin (Bartlett & Ghoshal, 2000). In order to overcome these liabilities, Chinese MNCs adopt localization strategies, which refer to proactive actions to adapt to a particular environment that includes specific customer demands, constraints in product and service distribution, unique business cultures, and governmental regulations (Roth & Morrison, 1991). In this study, I distinguish between two types of localization strategies: internally-oriented strategies that alter organizational structures and practices to fit local norms and externally-oriented strategies designed to gain support from local stakeholders and access to local markets.

Despite the acknowledged importance of both internal and external approaches (e.g. Andersson, Forsgren, & Holm, 2002; Law, Song, Wong, & Chen, 2009), the state of scholarly knowledge about how MNCs select among these strategies remains scant. Researchers have long held the assumption that the use of localization strategies has positive effects on subsidiary performance. Empirical evidence supporting such a positive relationship, however, is rather limited. Better knowledge regarding the effectiveness of internal and external localization strategies can enhance our understanding of how MNCs survive in unfamiliar environments.

In addition to strategic considerations, it is also necessary to understand how MNCs combine internal and external localization strategies as a response to heterogeneous and even conflicting external influence. While researchers have recognized the impact of both host and home country institutional pressures, most empirical studies have focused only on host country influence (Estrin, Meyer, Nielsen, & Nielsen, 2016). Chinese MNCs are unique in their strong connections with home country institutions. The Chinese government can exert considerable influence over

MNCs via direct company ownership. In order to develop a comprehensive understanding of how Chinese MNCs choose their localization strategies, researchers should simultaneously take into account both the host and home country influence.

The primary objective of this study is to address these issues. Following suggestions of some recent International Business (IB) studies, I focus on foreign subsidiaries as the focal unit of analysis (Chan & Makino, 2007; Hillamn & Wan, 2005). I shed light on two specific localization strategies: devolution of HRM decision making, which represents an internal mechanism, and network building, which represents an external mechanism. A first goal of this study is to investigate whether these strategies are effective in mitigating the dual liabilities of foreignness and origin, as measured by subsidiary growth -- which is the most important goal that Chinese MNCs pursue at the initial stage of entry.

Second, drawing on the institutional theory, I explore whether institutional pressures shape the extent of adoption of localization strategies. The hypotheses recognize the opposing institutional logics that host and home countries impose on Chinese MNCs. While host country institutional actors expect Chinese MNCs to display good intentions to adapt their organizational practices to host country norms, pressures from the home country government may constrain firms' ability to adopt localization strategies. I test these hypotheses using survey data from subsidiaries of 82 Chinese MNCs in the U.S.

This study contributes to the existing literature in several ways. First, I compare the effectiveness of two localization mechanisms in promoting subsidiary growth, as well as the particular institutional forces that determine the adoption of these mechanisms. Second, I extend the international business research by examining how the conflicting logics of host and home country institutions shape decisions of MNC subsidiaries. Chinese MNCs, especially those with state ownership, experience what I call “dual institutional liabilities”: they encounter strong institutional pressures from the host country, but lack sufficient flexibility to adjust their managerial practices. Third, I focus on a subject of study – Chinese MNCs in developed markets – that has received little attention, even though their presence in developed economies has grown considerably in the last decade. While the existing literature primarily targets MNCs from developed regions (Mathews, 2006), this study provides important empirical evidence regarding how and why Chinese MNCs adopt localization strategies.

Localization Strategies and Subsidiary Growth

Liabilities of Foreignness and Liabilities of Origin

When entering a developed market, Chinese MNCs encounter hazards and uncertainties that are related to the status of “foreignness” as well as status of origin as “Chinese firms”. “Foreignness” induces extra costs of investing, operating, and managing in the host country, which local firms do not experience (Zaheer, 1995). Chinese MNCs are particularly vulnerable to these liabilities, as they suffer from a lack of resources to compete in the global market, especially with respect to brand recognition and proprietary technologies (Buckley et al. 2007). One senior manager from a company that provides network security solutions described liabilities of foreignness in this way,

> A major obstacle that we encounter in the U.S. is a lack of strong brand. We have been very successful in China helping our business partners maintain their online systems. But we find it extremely difficult to convince American firms to try our services. Local managers told us that they would not take the risk of trusting a company that they have never heard of, and they may consider our services only if we are able to establish a strong standing in the country (Interview 1, 2015).[1]

While liabilities of foreignness are common obstacles among MNCs, liabilities of origin are unique to MNCs from emerging market economies. In a developed market, host country actors may discriminate against Chinese MNCs based on the fact that they come from a "less-developed" country. In particular, the identity of "Chinese firms" is often associated with negative stereotypes such as low standards of corporate governance, inferior product quality, and unfair competition (Globerman & Shapiro, 2009). The rapid expansion of Chinese MNCs in developed markets also raises public concerns regarding proprietary rights protection and national security, especially when the expansion involves intensive interference from the home country government (Hoskisson, Wright, Filatotchev, & Peng, 2013). As one manager from a large state-owned telecommunication company suggests:

> The largest obstacle to expand is strict regulatory supervision from the U.S. government. Team Telecom, the executive branch agencies that scrutinize national security and law enforcement aspects of Federal Communication Commission (FCC), denied our first application to the FCC section 214 authorization (an

[1] This quotation and others below come from interviews with informants of foreign subsidiaries. More information about these interviews is in the research method section and Table 2 in the appendix.

> operational license in the telecommunication industry) for the sake of national security. But overall the standards are neither clear nor transparent. They provide no clear guidelines about what creates a "threat" to the national security (Interview 2, 2015).

These liabilities make it particularly difficult for Chinese MNCs to establish and expand operations in developed countries. By helping firms adapt to local conditions, localization strategies provide an important means to overcome both liabilities of foreignness and origin (Klossek, Linke, & Nippa, 2012).

Internal and External Localization Strategies

This study classifies localization strategies into two types according to their locus of application — internally- and externally-oriented strategies. I list the major characteristics of these two strategies in Table 1. Internal strategies change organizational structures or managerial practices to develop location-specific capabilities that tackle changes in market conditions in the host country, adapt to customer preferences and local norms (Morris & Snell, 2011; Prahalad & Doz, 1981), and gain legitimacy by improving reliability and credibility in corporate governance (Luo and Tung, 2007). Replacing expatriate managers with local managers and allowing foreign subsidiaries considerable discretion in decision making are two of the most common internal strategies. Subsidiaries can substitute expatriate managers with competent local managers who have tacit knowledge to manage the subsidiary according to local norms and regulations (Law et al. 2009; Law, Wong, & Wang, 2004). They can also take initiatives to implement HR practices that fit local norms and comply with labor and employment laws (Bjorkman, Fey & Park, 2007; Ferner, Almond, & Colling, 2005). In addition to HR practices, subsidiaries can adjust their operational processes and marketing strategies to accommodate needs of local customers.

-- Table 1 goes about here --

The external strategies, which target external stakeholders and generate support from the local community, provide another pathway to achieve local responsiveness. These strategies acquire critical resources and knowledge from local stakeholders and at the same time strengthen trust with local community actors by enhancing mutual understanding and increasing legitimacy as perceived by host country stakeholders (Luo, 2001). MNCs can build up strong local network connections to heighten their adaptation to local norms (Ge & Wang, 2013; Luo, Shenkar, & Nyaw, 2002), or promote their recognition and social legitimacy by actively engaging in corporate social responsibility (CSR) initiatives (Gardberg & Fombrun, 2006). Managers may also adopt political strategies such as lobbying, advocacy advertising, and political donations to reduce environmental uncertainties and gain access to critical resources (Hillman & Hitt, 1999).

Despite potential benefits, these two mechanisms may also carry certain challenges and risks. Change in internal organizational structures and practices may threaten the control of parent firms over foreign subsidiaries (Birkinshaw, 1998; Fan, Zhang, & Zhu, 2013) and reduce the efficiency of internal collaboration (Mudambi, 1999). Subunits can build up their own slack resources and pursue strategic goals that may not coincide with broader corporate objectives (Bartlett & Ghoshal, 1989). Strong external relationships, by contrast, imply commitment and obligations to local stakeholders (Burt, 1997). Foreign subsidiaries need to fulfill local responsibilities such as complying with labor standards and using local suppliers. These obligations may restrict freedom of decision making. In addition, firms need to invest substantial resources and effort to maintain network connections and support their engagement in, for example, corporate social responsibility programs (Adler & Kwon, 2002). The heavy investment may distract these firms' attention from other critical business functions and undermine their capacity to carry out these work tasks.

In terms of public salience, external strategies have higher exposure than internal strategies. Many firms may deliberately make their network connections or corporate social responsibility involvement explicit in order to gain legitimacy from their connections to high-prestige local institutions such as business associations, leading firms, or universities (Kuilman & Li, 2009). In doing so, firms convey a message that they are willing to establish long-term relationships with the local community (Campbell, Eden, & Miller, 2012). By contrast, internal strategies primarily target employees and have a relatively low public exposure.

In this study, I focus on two specific localization strategies: devolution of HRM decision making to subsidiary managers (used interchangeably with devolution of HRM in the following sections) and network building. Devolution of HRM—the responsibility of foreign subsidiary managers for making decisions on HRM policy-related issues, including recruitment and selection, training and development, performance appraisal, compensation, and labor relations (Gooderham, Morley, Parry, & Stavrou, 2015)—represents an internally-oriented strategy to achieve local responsiveness. Network building—the proactive efforts to build up connections with local government, business associations, firms, universities, and local community—is an externally-oriented strategy that concentrates on interaction of focal firm and the external environment.

Localization Strategies and Growth of Foreign Subsidiaries

As the expansion of Chinese MNCs in developed markets is still at an early stage, their primary objective is to achieve growth in terms of market share, business activities, and enterprise size. The two localization strategies, devolution of HRM and network building, promote growth of foreign subsidiaries. From a resource-based perspective, the managerial capabilities that an organization holds enable and constrain its growth (Penrose, 1959). In a multinational context, researchers assess managerial capabilities as the extent to which foreign subsidiaries are able to adapt to local norms, explore business opportunities, and address changes in market conditions in a specific host country (Birkinshaw & Hood, 1998; Tan, 2009). Devolution of HRM facilitates on-going learning from the external environment (Kang, Morris, & Snell, 2014; Minbaeva et al. 2003). Managers can develop learning-promoting HR practices to help subsidiaries develop and strengthen their managerial capabilities to adapt to local norms and address specific customer preferences and thus achieve substantial organizational growth.

One HR manager from a non-state-owned bank emphasizes the importance of HRM devolution in promoting managerial capabilities. The U.S. branch has 100% control over HR issues. It recruits a majority of employees from the local community. The traditionally defined "expatriates" do not exist in the bank. The branch treats people who move from Chinese headquarters as local employees, working permanently in the U.S. rather than taking short-term assignments. It hires local consultants to help establish a compensation system that aligns pay with both individual and organizational performance. The U.S. branch also encourages employees to take courses in local universities and invite professional institutions to provide training opportunities, with the expectation that employees can learn local business norms and acquire useful skills through these trainings. These HR practices help the U.S. branch attract and retain qualified human capital and quickly adapt to an unfamiliar and distinct market (Interview 3, 2015).

In addition to managerial capabilities, devolution of HRM also enhances the reliability and credibility of foreign subsidiaries. External stakeholders often criticize the governance structure of Chinese MNCs for its lack of professionalism and credibility (Buckley et al. 2007). Applying this kind of managerial structure to a foreign market may prevent Chinese MNCs from gaining legitimacy. Opposition to Chinese MNCs is most intense and mobile in developed nations, where open and transparent political systems are well established (Child & Marinova, 2014). Devolution of HRM enables foreign subsidiaries to establish modern governance structures that are in line with requirements of host country stakeholders and thus improve their trustworthiness and reliability (Luo & Tung, 2007). These new managerial practices distance the foreign subsidiaries from their parent firms (Wang, Luo, Lu, Sun, & Maksimov, 2013). As the social identity of "firms from China" becomes less salient, foreign subsidiaries are subject to weaker oppositions from the local community.

H1a: Devolution of HRM is positively related to growth of foreign subsidiaries in the host country.

Network building promotes subsidiary growth by providing access to tacit knowledge about local business opportunities and social norms. First, Chinese MNCs can cultivate their network relationships with local firms, governmental authorities, and other critical stakeholders in the local community to acquire valuable information regarding business opportunities (Gulati, Nohria, & Zaheer, 2000; Zhou, Wu, & Luo, 2007). When seeking to acquire a certain plant, for example, Chinese MNCs with strong external network relationships can gain more comprehensive information about the target asset and thus avoid bidding higher price than the actual worthiness (Hope, Thomas, Vyas, 2011). Second, by establishing network relationships with local stakeholders, foreign subsidiaries develop a better understanding of the local idiosyncrasies, including social norms, customer preferences, and legal requirements. With resource endowments from external networks, foreign subsidiaries improve their capabilities to manage business operations and deal with local demands.

Network building also facilitates trust with local stakeholders. When entering a developed market, Chinese MNCs often lack sufficient knowledge about legitimacy requirements of the specific institutional environment. Meanwhile, local stakeholders have very limited information to evaluate whether business actions of these firms are appropriate (Globerman & Shapiro, 2009). The information asymmetry restricts Chinese MNCs from gaining legitimacy and negotiating exemption of compliance (Kostova & Zaheer, 1999). Network building reduces the information asymmetry between the two parties. To the extent that Chinese MNCs can regularly interact and consult with host country political and economic actors, they are able to convey their goodwill of doing business and mitigate negative stereotypes regarding accountability, transparency, and trustworthiness (Ge & Wang, 2003; Zhou, Wu, & Luo, 2007). When foreign subsidiaries establish trust relationships with local stakeholders, they can avoid interference from external parties and seek growth opportunities in foreign markets (Zimmerman & Zeitz, 2002).

One manager who works for a bank with a long history of presence in the U.S. explain how they benefit from strong community relationships. Managers of the bank are on the board of a few important local business associations. They also establish long-term relationships with some local universities and colleges. Although the bank has moved its new offices to Manhattan, it still maintains operations in Queens, where a lot of its old customers locate. In doing so, the bank tries to convey a message that it is highly committed to serving customers and the society as a whole. With strong community relationships, the bank is successful in not only retaining existing loyal customers, but also attracting new ones each year (Interview 4, 2015).

H1b: Network building is positively related to growth of foreign subsidiaries in the host country.

While this study emphasizes the importance of devolution of HRM and network building for promoting subsidiary growth, little theory or research has informed the question of whether one strategy is more important or effective than the other. Therefore, in addition to the two hypotheses, I explore the question of the relative impact of the two localization strategies on subsidiary growth.

Institutional Pressures from the Host and Home Country

Researchers of international business have used institutional theory to explain why foreign subsidiaries of MNCs adopt certain practices or strategies (e.g. Husted, Montiel, & Christmann, 2016). Firms must conform to rules and belief systems prevailing in the external environment (Dimaggio & Powell, 1983; Meyer & Rowan, 1977). They adopt strategies and practices not simply for efficiency reasons, but also as responses to isomorphic and legitimacy pressures (Scott, 1995). As MNCs operate simultaneously in multiple institutional environments, they must cope with contradictory institutional prescriptions and gain legitimacy from different external constituents (Greenwood et al. 2011; Xu & Shenkar, 2002). The ability to navigate institutional complexity has become a key to the success or failure of MNCs (Ahmadjian, 2016). In the following section, I describe the institutional logics that host and home country institutions hold and explain how these opposing logics shape strategies of foreign subsidiaries.

Host Country Regulatory Pressures

Regulatory pressures from the host country include formal laws, regulations, and rules that promote certain types of behaviors and restrict others (Scott, 1995). The level of regulatory pressure may vary across foreign firms, depending on the extent to which these firms can provide local benefits as well as whether they pose threats to national interests (Rui & Yip, 2008). Chinese MNCs, for example, are subject to different degrees of regulatory scrutiny based on host-country concerns regarding issues as whether the particular MNC subsidiary is more likely to gain access to intellectual property or sensitive national security information (Gooderman, Morley, Parry, & Parry; Meyer, Ding, Li, & Zhang, 2014).

To address regulatory pressures from the host country, Chinese MNCs must conform to local regulations and demonstrate goodwill in doing business (Li & Meyer, 2009). If foreign subsidiaries have substantial managerial discretion, they are able to adjust their HR practices based on regulatory requirements (Fenton-O'Creevy et al. 2008). Subsidiary managers, for example, can hire large numbers of local citizens, provide training about compliance, and adapt industrial relations practices to fit local regulations and social norms (Cuervo-Cazurra et al. 2014). Devolution of HRM also empowers foreign subsidiaries to learn from local firms and implement advanced managerial practices in developed countries. These managerial practices improve the corporate governance and transparency of foreign subsidiaries and thus develop subsidiaries' own independent reputation and legitimacy in the host country (Wang et al. 2013). Through isolation from the negative image of parent firms, Chinese MNC subsidiaries may eliminate misgivings found among government officials and citizens regarding poor management quality.

In addition to devolution of HRM, Chinese MNCs that encounter intense regulatory pressures are also likely to respond by investigating substantially in network building. They seek relationships of trust with regulators and the broad community to increase mutual understanding and thus mitigate negative stereotypes (Globerman & Shapiro, 2009). According to one public relations manager of a New York based state-owned bank, community relationships are important means through which Chinese MNCs achieve legitimacy in developed markets. Despite a short history in the U.S. market, the bank has already established strong business partnerships with many local firms. It also maintains good relationships with local governors, participates in a few influential business and industry associations, and actively gets involved in social responsibility programs. Two years ago, the bank successfully acquired a local U.S. bank with operations in major metropolitan areas. It is one of the first successful Chinese acquisition in the U.S. banking industry. The network relationships certainly help in completing the deal (Interview 5, 2015).

H2a: Host country regulatory pressure is positively related to devolution of HRM decision making and adoption of network building

Foreign subsidiaries facing intense host country regulatory pressures are more likely to adopt network building than devolution of HRM. That is because they are particularly vulnerable to regulatory pressures when they first enter a developed market – for example, they lack relationships of trust or local information. Network building provides an immediate and effective means to address these pressures. Through network relationships, Chinese MNCs can acquire useful knowledge about local norms and regulations and therefore develop timely responses to the external influence. Network building also attracts more external exposure than devolution of HRM. The positive effect of HRM devolution, by contrast, takes a longer time to realize. Devolution of HRM promotes location-specific capabilities to adapt to local environments, but only through a long and continuous learning process. Similarly, legitimacy benefits of HRM devolution also manifest in a long period of time. Given the relatively low public exposure of internal localization efforts, local stakeholders may not be aware of internal changes in Chinese MNCs.

H2b: Host country regulatory pressure has a stronger positive relationship with network building than with devolution of HRM.

Pressures from the Home Country Government

Since prior research has primarily targeted MNCs from developed regions where state intervention is very limited, the effect of governing institutions in the home country has been largely neglected (Henisz & Zelner, 2005). The expansion of Chinese MNCs, however, has led to more attention to the impact of the home country government. In addition to the host country influence, a foreign subsidiary is also subject to pressures from the home country government (Wang, Hong, Kafouros, & Wright, 2012). A most direct way through which the home country government influence Chinese MNCs is to hold shares in these firms. State ownership establishes direct control over MNCs and thereby increases the resource dependence of these firms (Cui & Jiang, 2012). Governing institutions influence state-owned MNCs and align the expansion activities with their own interests (Choudhury & Khanna, 2014).

State ownership hinders devolution of HRM decision making, as this localization strategy threatens the control of the home country government over foreign subsidiaries. The Chinese government mandated state-owned firms to fulfill political responsibilities such as imposing wage caps to reduce income disparity, hiring and training the unemployed, and implementing employee-friendly practices to achieve harmonious employment relationships (Cooke, 2012). Foreign subsidiaries, as extensions of state-owned firms, need to assume similar political responsibilities and serve as role models of personnel practices for other private MNCs. In order to meet these political priorities, state-owned MNCs must implement consistent HR practices in both domestic operations and foreign subsidiaries. By changing HR practices to accommodate local demands, devolution of HRM generates heterogeneity within MNCs and threatens the control over foreign affiliates.

Below I summarize the perspective of one manager from a state-owned energy firm regarding the pressures that the U.S. subsidiary experience in deciding their HR practices. The global headquarters request all subunits, foreign- or domestic-based, to adopt a set of standardized HR practices. There is a fixed number of employees that the subsidiary can hire each year. Managers have to file applications if the subsidiary needs more employees to sustain its operation. Similarly, managers must go through formal procedures to get the approval from the global headquarters every time they make promotion and transfer decisions, even though the possibility of rejection is rather low. When there is a conflict between existing HR practices and local business demands, the subsidiary submits a report to higher-level managers in Beijing to propose changes in these practices. Overall, the manager concludes that it is global headquarters that has the final say in HR-related issues (Interview 6, 2015).

State ownership also constrains network building because local obligations associated with this strategy may contradict interests of the home country government. Strong network relationships require heavy commitment to the connected partners

(Luo, Shenkar, & Nyaw, 2002). In order to strengthen and maintain these local connections, Chinese MNCs must fulfill obligations such as hiring local workers, enhancing transparency of corporate governance, and adopting higher standards of corporate social responsibilities. These responsibilities, however, may not be aligned with, or even contradict interests of the home country government. In addition, the heavy investment on establishing and maintaining network connections reduce resources available to accomplish political and economic missions of the home country government.

H3a: The proportion of state ownership is negatively related to the adoption of HRM devolution and the adoption of network building.

Devolution of HRM, compared to network building, is subject to stronger restrictions from the home country government. Through ongoing reforms of decentralization and liberalization, governing institutions in China have greatly reduced their involvement in business operations of state-owned firms, keeping power over only a few key strategic decisions (Musacchio, Lazzarini, & Aguilera, 2015). Personnel management is among one of these key decisions (Xu, Zhu, & Lin, 2002). As labor decisions affect the capability of the state to regulate resource allocation, it has become a primary channel through which the home country government exerts its control (O'Connor, Deng, & Luo, 2006). Devolution of HRM is likely to bring about substantial changes in HR practices, which may possibly attenuate the influence of government over foreign operations. Network building, as an externally-oriented localization strategy, does not generate a direct threat to the control of the Chinese government.

H3b: State ownership has a stronger negative relationship with devolution of HRM than with network building.

Research Methods

Sample and Procedures

I investigated localization strategies of Chinese MNCs in the U.S. and chose to limit the sample of subsidiaries to one host country for three reasons. First, this allows me to control for political risk and other country-level differences that provide alternative explanations to the issues I am studying. Second, as one of the world's leading economies, the U.S. provides an appropriate context to explore Chinese MNCs in developed markets. Third, given difficulties of collecting first-hand survey data from Chinese MNCs (Deng, 2013), I focus on one location with the highest data availability.

I collaborated with the China General Chamber of Commerce – U.S. (CGCC) to design and distribute surveys at the subsidiary level of Chinese MNCs. CGCC is a quasi-governmental agency that promotes Chinese investment and protects interests of Chinese firms in the U.S. It represented over 1,000 Chinese MNCs with operations in U.S. at the time of survey. Staff at the CGCC were responsible for contacting Chinese subsidiaries and coordinating the distribution and collection of surveys. A cover letter explained major purposes of the research and provided contact information of the researcher. High-level managers (e.g. CEO or general managers) completed the survey online.

In 2014, the CGCC conducted a preliminary survey to develop a comprehensive understanding of its member companies. They collected data from 101 foreign subsidiaries of Chinese MNCs, 44 of which also participated in the 2015 research. I revised the initial questionnaire in 2014 based on researchers' suggestions and feedback from companies. In order to ensure the quality of data analysis, I used the 2014 survey to cross-check responses in the 2015 survey and did a supplementary analysis based on the 44 overlapping cases.

Of 200 surveys CGCC distributed in 2015, 121 completed surveys returned for a response rate of 60 percent. After teasing out cases with missing values, I had 82 observations left for data analysis. I cross-checked survey responses (e.g. state ownership, year of entry, etc.) with the 2014 survey as well as external sources such as annual reports and official websites. Then I corrected inconsistent responses and filled in missing values. I compared the major organizational characteristics of cases with and without missing values and found no significant differences in all of these characteristics, except for state ownership and size of parent firm. Cases with missing values are more likely to come from smaller businesses and have lower state shares than those without.

The Chinese government held more than 50% of shares in 56% of the 82 companies in the sample. A majority of foreign subsidiaries (73 out of 82) were wholly owned by the parent firm. The sample industry breakdown was 12 from energy-related industries, 13 from financial and banking, and 21 from manufacturing. The average year of entry into the U.S. market was 12, with 50 percent of companies having entered in the last seven years.

Interviews

I supplemented the survey data analysis with 20 interviews of senior managers, HR managers and specialists, operational managers, public relations managers, and other informants in foreign subsidiaries of Chinese MNCs. I selected 15 different companies based on three major characteristics — industry, ownership status, and entry mode. The firms selected are from six different industries (manufacturing, high technology, banking, telecommunication, energy, and transportation). Seven of these firms have central or local Chinese government as the controlling shareholder, four of them have less than 50% of state shares, and the other four are private businesses. Three of these firms entered the U.S. market via mergers & acquisitions, whereas the other 12 chose greenfield investment. Interviews were semi-structured and lasted about two hours. Respondents describe the history of expansion of their subsidiary in the U.S. market, the HR practices that they adopt, their network relationships in the local community, and institutional pressures they experience from the host and home country. These interviews helped me develop a richer picture of strategies of Chinese MNCs in the U.S. and strengthen my understanding of the hypothesized relationships.

Measures

Dependent variables. Similar to previous studies, I used subjective measures to assess growth (Lu, Zhou, Bruton, & Li, 2010). While not ideal, the perceptual measure is appropriate for this study because many foreign subsidiaries of Chinese MNCs are not able to provide reliable financial indices at their early stage of entry into the U.S. market (Woodcock, Beamish, & Makino, 1994). I used three five-point likert-scale items to capture perceptions regarding growth in 2014: growth of number of employees, growth of market share, and growth of business activities (1 = decrease dramatically, 5 = increase a lot). The alpha reliability is .69, which is very close to the recommended .70 criterion (Hair, Anderson, Tatham, & Black, 1998).

Devolution of HRM decision making. Similar to Fenton-O'Creevy et al. (2008) and Ferner et al. (2013), I measured devolution of HRM as the degree of centralized control over HR practices experienced by the subsidiary. Respondents reported managerial discretion in deciding HR practices for three employee groups: high-level managers, middle-level managers, and non-managerial employees. They rated foreign subsidiary discretion in deciding policies for recruitment, training and development, performance appraisal, compensation, and employment relations for each of the three groups (1 = totally decided by parent firm, 4 = totally decided by foreign subsidiary). I gained an overall score by taking the average of HR devolution ratings of these three employee groups (alpha = .77).

Network building. The measure of network building is based upon previous research (Ge & Wang, 2013; Luo, 2001; Yiu, Lau, & Bruton, 2007). I evaluated network building as the frequency of interactions with local stakeholders. Respondents reported "how frequently does your firm interact with the following institutions or individuals". The targets of network interaction included officials of government, business associations, local companies, universities, and the local community. I measured the intensity of network relationships on a frequency score from 1 to 4 for each of item (1 = very rarely, 4 = once a week). The alpha reliability is .87.

State ownership. Following the convention of prior studies, I measured state ownership by the proportion of shares owned by the Chinese government (either the central or local government entity) (Cui & Jiang, 2012; Musacchio & Lazzarini, 2012). Respondents reported the percent of shares that the Chinese government owns in the parent firm, based on a scale of 1 to 5 (1 = wholly state owned; 2 = state owns more than 50%; 3 = state owns 10% to 50%; 4 = state owns less than 10%; 5 = totally private). I converted the 5-point scale into a continuous variable that measures percentage of state ownership (1 = 100%, 2 = 75%, 3 = 30%, 4 = 5%, and 5 = 0). Then I reversed coded the variable so that negative coefficients mean that proportion of state ownership has a negative effect on localization strategies.

Regulatory pressures from U.S. institutions. I measured host country pressures by asking respondents to rate "whether the U.S. government targets foreign companies" in areas of monopoly detection, propriety rights protection, tax, finance, corruption, and others. Based on these items, I created an additive index of regulatory pressures, with the total score ranging from 0 to 6.

Control variables. I measured the extent to which foreign expansion is based on *asset seeking* or *market expansion* as researchers did in prior studies (Cui, Meyer, & Hu, 2014). Respondents reported "the extent to which they evaluate the following items as primary motivators to enter the U.S. market" (1 = not important at all, 5 = very important). I used three items to measure each construct. Items of asset seeking include acquiring advanced technology, acquiring international management expertise, and acquiring an international brand. The three items of market expansion are expanding global market, reducing cost of trade, and overcoming trade barriers. I also controlled for *industry*, with a series of dummy variables equal to 1 for financial services and 1 for energy, else 0. I clustered the remaining industries into one category because the expansion of MNCs from these industries often does not raise public concerns regarding national interests and security. These firms are subject to less intense regulatory pressures than those from finance and energy industry. I controlled for the number of *Years since entry into the U.S. market* because firms with more experience in a particular country are likely to adopt local managerial practices and have stronger network relationships with local stakeholders. These experienced firms also report lower growth rates than new entries. I subtracted the year that the company first entered the U.S. from 2015 and then took the natural log. I controlled for *size of parent firm* because large parent firms have more experience adapting their managerial practices to fit local norms and regulations. They also provide greater resources for foreign subsidiaries to establish external relationships. I measured size of parent firm by taking the natural log of the total number of employees in the parent firm. *Number of countries in which the company has operations* measured a company's prior experience with internationalization (taking natural log). *Ownership structure* measured whether the Chinese parent firm fully owns the foreign subsidiary. Foreign subsidiaries with shares held by multiple companies may be subject to less influence from their parent firm. They have greater discretion in deciding their HR practices and establish local networks.

Results

Table 3 presents means, standard deviations, and bivariate correlations for the variables. The test of Variance Inflation Factors (VIF) indicate that multicollinearity is not likely to be a problem in this study. The highest VIF is 4.16, which is much below the common cutoff of 10, and the mean of all VIFs is not considerably larger than 1 (Chatterjee & Price, 1991). Table 4 reports results of regression analyses for devolution of HRM, network building, and growth of foreign subsidiaries. I first ran OLS regressions for devolution of HRM and network building. Then I examined the extent to which localization strategies were related to growth of foreign subsidiaries in the context of host and home country pressures. To test hypotheses 2c and 3c, I followed procedures suggested by Clogg, Petkova, & Haritou (1995) to compare regression coefficients across models. b_1 is the coefficient of the host/home country influence in Model 1, and b_2 is the regression coefficient of the host/home country influence in Model 3. Given the small sample size, it is reasonable to relax the level of significance to .10.

$$\mathrm{t} = \frac{b_1 - b_2}{\sqrt{s(b_1)^2 + s(b_2)^2}}$$

With respect to the host country influence, hypotheses 2a predicts that subsidiaries that face stronger regulatory pressures in the host country are more likely to adopt HRM devolution and network building. The coefficient on regulatory pressure is positive and significant for network building (Model 4, $b = .16$, $p < .05$). The relationship between regulatory pressure and devolution of HRM is negative, but not significant at conventional levels (Model 2, $b = -.05$, $p > .10$). Overall, hypothesis

2a receives only partial support. Hypothesis 2b proposes a stronger relationship of host regulatory pressures with network building than with devolution of HRM. The comparison of coefficients between Model 2 and Model 4 substantiates this hypothesis ($t = 2.44$, $p < .01$).

-- Insert Tables 3 and 4 about here --

Hypotheses 3a posits that subsidiaries with a higher proportion of state ownership are less likely to adopt HRM devolution and network building than private businesses. Results indicate a marginally significant relationship between proportion of state ownership and devolution of HRM (Model 2, $b = -.07$, $p = .09$). The relationship between proportion of state ownership and network building is significant and negative (Model 4, $b = -.15$, $p < .05$). Results provide support for hypothesis 3a. Hypothesis 3c, which proposes a stronger relationship of proportion of state ownership with devolution of HRM rather than with network building, does not receive empirical support ($t = 1.11$, $p > .10$).

The findings for control variables are also worth noting. Subsidiaries that pursue a strategic goal of market expansion are likely to report greater devolution of HRM (Model 2, $b = .17$, $p < .05$), while those with a strategic goal of asset seeking are more actively engaging in network building (Model 4, $b = .15$, $p = .06$). Subsidiaries that operate in energy-related industries are less likely to adopt HRM devolution than those operate in other industries (Model 2, $b = -.45$, $p < .05$). Due to its importance to national security and economic development, the energy industry is subject to the greatest supervision from the home country government. The need to maintain control and consistency outweigh the necessity to address regulatory pressures in the host country. Wholly-owned subsidiaries, compared to those owned by multiple parties, report less adoption of network building (Model 4, $b = -.63$, $p < .05$).

Model 5 and Model 6 present results of regression analyses for subsidiary growth. Hypothesis 1 predicts that subsidiaries with high level of HRM devolution are more likely to seek growth opportunities. The coefficient on devolution of HRM is positive and significant (Model 6, $b = .39$, $p < .01$), providing statistical support for hypothesis 1a. Hypothesis 1b, which proposes a positive relationship between subsidiary growth and network building, receive strong empirical support (Model 6, $b = .24$, $p < .05$). Adding localization strategies to the base model explains an extra 7% of total variance. With respect to control variables, years since entry is negatively related to growth of foreign subsidiaries (Model 6, $b = -.36$, $p < .01$), as expected. The rate of growth decreases as firms stay longer in the host country because the marginal gain of learning drops over time (Evans, 1987). New entrants are likely to benefit more from acquiring knowledge in the host country than those with a longer history. The negative relationship is consistent with findings in previous studies (e.g. Jovanovic, 1982).

In addition to the hypotheses, this study also examined the relative impact of localization strategies on subsidiary growth. Standardized regression coefficients allow researchers to compare the relative importance of different variables. I calculated standardized coefficients of HRM devolution and network building using a “beta” order in STATA software. An increase of one standard deviation in devolution of HRM leads to a .34 unit of standard deviation increase in subsidiary growth. An increase of one standard deviation in network building yields a .27 standard deviation increase in subsidiary growth. Results indicate a somewhat stronger relationship of subsidiary growth to devolution of HRM.

Supplementary Analysis

To ensure validity of the findings, I employed alternative measures to assess the proportion of state ownership and regulatory pressures. Based on the same survey item used above, I used two other common approaches to assess state ownership. First, I coded firms as "state-owned" (1, else 0) if the Chinese government is the controlling shareholder, namely the one that owns more than 50% of total shares in the company (Inoue, Lazzarini, & Musacchio, 2010; Meyer, Ding, Li, & Zhang, 2014). Second, I coded state ownership depending on whether the subsidiary affiliates of firms had at least some state shares (Cui & Jiang, 2010; Duanmu, 2012). I gave a score of 0 if the subsidiary was entirely private, and 1 if otherwise. Results remained unchanged when I used these alternative measures.

For host country regulatory pressures, I used an alternative measure that assesses whether subsidiaries encounter risks and problems in the following areas: detrimental policies against foreign companies, limitations on labor use, strong governmental monitoring, visa and immigration policies, national protectionism, and difficulty to acquire licenses for operating in a certain industry or producing a certain type of products. I added up all these items to create an overall index, with a score ranging from 0 to 6. Consistent with my findings, regulatory pressures are positively related to network building, but at a lower significance level than in the original specification. Using this operationalization, there was no significant relationship between regulatory pressures and devolution of HRM.

The cross-sectional design and single source of respondents may bias results of this analysis and limit causal inferences. In order to address these concerns, I performed several regression analyses based on the 44 overlapping cases in both the 2014 and 2015 surveys. I assessed state ownership, primary industry of operation, years since entry, and ownership structure in exactly the same way as in the original analysis. The measure of HRM devolution and host country regulatory pressures, however, are somewhat different in the two surveys. Respondents reported an overall score to evaluate "the extent to which foreign subsidiaries can decide their HR practices", rather than providing ratings for each specific HR practice and separately for three different employee groups. I evaluated regulatory pressures using the alternative measure in the supplementary analysis. Data on network building, size of parent firm, number of global operations, and strategic objectives was only available in the 2015 survey.

I first regressed devolution of HRM and network building (from the 2015 survey) on variables collected from the 2014 survey. Then I performed a regression analysis with the dependent variable (subsidiary growth) collected in 2015, and the independent variable (devolution of HRM) in 2014. I found consistent results for the relationship between host and home country pressures and the adoption of localization strategies. Similar to my findings, there is a positive relationship between devolution of HRM and subsidiary growth, but at a lower significance level than in the original specification. In general, supplementary analyses provide further support for my primary findings.

Discussion

The primary objective of this study was to examine the performance outcomes and determinants of internal and external localization strategies. First, both devolution of HRM, an internally-oriented strategy, and network building, an externally-oriented strategy, are positively related to subsidiary growth. The effect of HRM devolution is stronger than that of network building. Second, host and home country institutions impose conflicting logics over Chinese MNCs. Host country regulatory pressures are positively related to network building, whereas the home country influence is negatively related to devolution of HRM and network building.

This study offers several contributions. First, I advance the localization literature by providing empirical evidence to support the effectiveness of localization strategies. Both internal and external strategies are positively related subsidiary growth. My findings indicate that the relative impact of HRM devolution is stronger than that of network building. A possible explanation is that managerial capabilities, which help subsidiaries address customer demands and adapt to local norms, are most important in sustaining growth at an early stage of expansion. Chinese MNCs can develop these capabilities by adopting HR practices that facilitate on-going learning from the external environment. Through network relationships, subsidiaries can acquire valuable knowledge about business opportunities and local norms. Nevertheless, subsidiaries can fully utilize the knowledge only when they have appropriate capabilities in place. In addition, the two localization strategies may also differ in their effectiveness in achieving legitimacy. Subsidiaries may gain external legitimacy by promoting trust with the local community. The strategy of network building along, however, is not sufficient for trust building. Subsidiaries need to also improve the reliability and credibility of their internal practices in order to acquire support from local stakeholders.

As an addition to previous research that stresses the importance of individual localization strategies in penetrating foreign markets (e.g. Law et al. 2009; Ge & Wang, 2013), this study examines how foreign subsidiaries combine multiple strategies. My findings indicate two major factors that affect the selection of Chinese MNCs over internal and external localization strategies — strategic considerations and environmental pressures. My findings show that subsidiaries with different strategic objectives are likely to adopt different localization strategies. Firms devolve HRM decision making to fulfill their strategic objective of market expansion. In order to gain recognition from local customers, managers adapt their HR practices to not only address customer demands, but also differentiate foreign subsidiaries from their parent company in China (Child & Marinova, 2014). Quotes from a public relations manager who works at a computer manufacturing company suggest how the devolution of HRM may help market expansion.

> Due to our origin from China, customers are sometimes skeptical of the product quality as well as our ability to deliver good services. We try to build up confidence from customers by making ourselves a highly localized company. We use Americanized operational procedures and strictly follow industry standards. We also

hire a large local workforce, promote local employees to become managers, and provide above-average compensation packages to attract talents (Interview 7, 2015).

Subsidiaries establish strong local connections to achieve the strategic objective of asset seeking. Through information exchange, subsidiaries can identify better acquisition opportunities and develop accurate estimates of asset values (Buckley, Elia, & Kafouros, 2014). Local connections also strengthen legitimacy of Chinese MNCs and thus reduce potential barriers and oppositions (Klossek et al. 2012). In addition to strategic considerations, subsidiaries also adopt localization strategies as a response to institutional pressures from both the host and home country.

Second, this study extends the international business literature by describing the institutional complexity that foreign subsidiaries face. While the existing literature primarily focuses on the host country influence, I simultaneously incorporate host and home country institutions in researching localization strategies. I examine the aggregate impact of the dual institutional forces and reveal the distinct logics that host and home country institutions hold over localization decisions of Chinese MNCs. My findings indicate that host country regulatory pressures have stronger effect on network building than on devolution of HRM. Foreign subsidiaries adopt network building, a relatively effective and immediate approach, to deal with regulatory pressures. Devolution of HRM, which is long-term oriented and low in public salience, is not a first choice in coping with regulatory pressures. With respect to the home country influence, the restrictions from the Chinese government apply equally to the devolution of HRM and network building.

My findings also reveal the "dual institutional liabilities" that state-owned MNCs experience when expanding into developed markets. The regulatory pressures from the host country can escalate when firms have strong resource dependence upon the home country government. The stronger the regulatory pressures in the host country, the more flexibility that state-owned MNCs need. The influence from the home country government, however, restrict firms from adopting localization strategies to accommodate these local demands. There is very limited room for state-owned MNCs to negotiate institutional freedom in decision making (Li, Cui, & Lu, 2014). In spite of strong regulatory pressures in the host country, the home country government is not likely to compromise its control over foreign operations.

Third, my study of Chinese MNCs contributes to an emerging body of research that focuses on foreign direct investment from emerging market countries. Although the presence of emerging market MNCs has grown considerably in developed economies, empirical evidence regarding how these firms penetrate into developed markets and achieve growth has been rather limited (Miller, Thomas, Eden, & Hitt, 2008; Musteen, Datta, & Francis, 2014). A primary focus of the existing literature is on how emerging market MNCs select their entry modes and ownership structures (e.g. Rui & Yip, 2008; Cui & Jiang, 2010), while little attention has been directed towards strategies that firms adopt after entry. My findings indicate that emerging market MNCs are actively adapting to local environment by using localization strategies. By examining how and why emerging market MNCs adopt localization strategies, this study contributes to a more comprehensive understanding of the internationalization process of emerging market MNCs (Deng, 2012).

I also reveal a unique characteristic of emerging market MNCs—strong influence from the home country government. The control of the home country government is likely to affect the choices of localization strategies. Emerging market MNCs, especially those that are dependent on government support, need to adopt strategies that are in line with political objectives of the home country government and abandon those that are against its interests. With control and consistency as priority concerns, the emerging market government maintains strong control over foreign subsidiaries. This study addresses a recent call for more attention on the role that the home country government plays in the global expansion of emerging market MNCs (Cui & Jiang, 2012).

This paper should also be viewed in light of its limitations. First, findings of this study should be interpreted with some caution, as the research was based on a sample of MNCs from a single country – and China, with its powerful central government, may be a unique or at least extreme case. A large number of Chinese MNCs remain in state hands, even though they are directed to place more emphasis on economic objectives. These firms are possibly subject to greater pressures to align their business activities with political priorities. Some recent studies, however, suggest commonalities of state influence among emerging market MNCs. Choudhury & Khanna (2014) found strong influence of Indian government over firms in the "strategic sector" even after the privatization movement. Comparisons of emerging market MNCs from countries with diverse levels of state control and influence will be of particular value. Researchers should also explore other unique characteristics of emerging market MNCs and examine how their mechanisms of internationalization differ from MNCs from developed regions.

Second, selection bias may exist because of the source of the sample, which comes from membership in the CGCC, a quasi-governmental agency that is affiliated with the Chinese Chamber of Commerce. It is possible that these member firms are larger in size and have stronger government connections than non-members. These firms may also report lower levels of local embeddedness. To avoid the label of "Chinese companies", some firms (such as Lenovo) may choose not to join this association. Due to a lack of data, I am not able to compare characteristics of sampled firms with those of non-member firms. Despite these potential problems, this firm-level dataset provides valuable opportunities to explore the penetration of Chinese MNCs in developed markets. Future research should include a larger and more diverse sample of firms.

Third, due to the single source of data, this research may suffer from common method bias. Following suggestions of Podsakoff, MacKenzie, Lee, & Podsakoff (2003), I used multiple strategies to mitigate the potential bias. First of all, I guaranteed confidentiality, used clear response guidelines, located measures of independent variables and dependent variables in different parts of the questionnaire, and assessed these variables by different scales. Some measures (such as state ownership) describe objective characteristics of the subsidiary and thus are not likely to share common method variance with other variables. Next, I used Harman's one-factor test and found that the single factor model demonstrated a poor fit to the data. The test showed that common method bias is not a major threat to hypothesis testing.

Furthermore, I did a supplementary analysis and ran regressions in which independent variables were from the 2014 survey, and dependent variables from the 2015 survey. In general, results of the supplementary analysis substantiated my primary findings. Overall, although common method bias cannot be completely ruled out, these procedures can help mitigate the threat to validity.

In conclusion, this study examines localization strategies that Chinese MNCs adopt when entering developed markets. Devolution of HRM, an internally-oriented strategy, and network building, an externally-oriented strategy, provide important means for Chinese MNCs to overcome liabilities of foreignness and liabilities of origin. The adoption of these strategies reflects not only strategic objectives, but also concerns regarding regulatory pressures from the host country, as well as influence of the home country government. My investigation is one of the few studies that examine the internationalization process of emerging market MNCs in developed markets, and I hope that my findings will motivate others to further pursue this line of research

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Appendix 1

Table 1: Internal and External Localization Strategies

	Internal localization strategies	External localization strategies
Mechanisms to reduce liabilities	Develop location-specific capabilities; enhance credibility and reliability	Acquire external resources and knowledge; build up trust with local community
Salience to the public	Low public exposure	High public exposure
Change in organizational structure	Change	No change
Potential costs	Loss of control by parent over foreign subsidiary; low efficiency; misalignment of headquarter and subunit objectives	Restrictions of decision making; high costs of maintenance
Example	Replacement of expatriate managers with locals; devolution of HR practices; Change in operational processes and marketing strategies	Community network building; participation in corporate social responsibility programs; lobbying and contributing to politicians

Appendix 2

Table 2: Information about Interviews

Interview Number	Industry	Ownership structure	Entry mode	Company	Position of interviewee
1	Information and technology	Private business	Greenfield	Company A: a provider of network security solutions	Director of the U.S. subsidiary
2	Telecommunication	Higher than 50% of state shares	Greenfield	Company B: a large telecommunication operator	Manager of the strategy planning department
3	Banking	Lower than 50% of state shares	Greenfield	Company C: a bank that is based in New York City	HR manager
4	Banking	Higher than 50% of state shares	Greenfield	Company D: a bank that has four branches in the U.S.	Manager of the strategy planning department
5	Banking	Higher than 50% of state shares	Mergers & Acquisitions	Company E: a bank that just acquired a local bank in the U.S.	Public relations manager
6	Energy	Higher than 50% of state shares	Greenfield	Company F: a company that focus on trading of petroleum	HR manager
7	Manufacturing/ information and technology	Lower than 50% of state shares	Mergers & Acquisitions	Company G: a large computer manufacturer	Public relations manager

Appendix 3

Table 3: Means, Standard Deviations, and Correlations of Variables

	Variable	Mean	S.D.	1	2	3	4	5	6	7
1	Growth	3.43	.82							
2	Internal: Devolution of HRM	2.80	.69	0.29*						
3	External: Network building	1.99	.90	0.20	-0.01					
4	Energy industry	.15	.36	-0.24*	-0.30**	0.02				
5	Financial industry	.16	.37	0.076	-0.16	0.05	-0.09			
6	Year of entry into US[a]	2.17	.90	-0.41**	-0.03	0.03	0.21	-0.07		
7	Size of the parent firm[a]	8.96	2.09	0.06	-0.03	0.19	0.11	0.15	0.08	
8	Number of foreign operations[a]	1.66	.74	-0.07	-0.24*	0.02	0.29**	0.19	0.31**	0.43**
9	Ownership structure	.89	.31	-0.17	-0.15	-0.25*	0.15	-0.06	0.01	-0.08
10	Asset seeking strategy	1.72	1.38	0.01	0.18	0.26*	0.07	-0.18	-0.14	0.19
11	Market expansion strategy	1.86	1.05	0.08	0.33**	0.13	-0.01	-0.23*	-0.02	0.14
12	Host: Regulatory pressures	1.16	1.37	0.07	-0.17	0.21	0.08	0.05	-0.07	0.01
13	Home: State ownership	53.84	43.76	-0.13	-0.32**	-0.16	0.25*	0.01	0.25*	0.41**

Note: N = 82

+ p < .10, * p < .05, ** p < .01

[a] Natural log of the variables

Table 3 (continued)

	8	9	10	11	12
9	0.21				
10	-0.22	-0.03			
11	0.10	0.07	0.31**		
12	0.16	-0.05	0.00	0.01	
13	0.58**	0.09	-0.09	-0.08	0.17

Appendix 4

Table 4: Results of Regression Analyses

Variables	Devolution of HRM		Network Building		Subsidiary Growth	
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Localization Strategies						
Devolution of HRM						0.39**
						(0.14)
Network Building						0.24*
						(0.11)
Institutional Pressures						
Host: Regulatory Pressures		-0.05		0.16*	0.02	0.02
		(0.05)		(0.07)	(0.07)	(0.06)
Home: State Ownership		-0.07+		-0.15*	-0.04	0.03
		(0.04)		(0.06)	(0.05)	(0.05)
Control Variables						
Energy Industry	-0.48*	-0.45*	0.04	0.05	-0.34	-0.20
	(0.21)	(0.21)	(0.30)	(0.28)	(0.26)	(0.25)
Financial Industry	-0.12	-0.17	0.18	0.04	-0.04	-0.06
	(0.22)	(0.22)	(0.29)	(0.28)	(0.26)	(0.26)
Year of entry into US [a]	0.06	0.05	0.05	0.10	-0.36**	-0.37**
	(0.09)	(0.09)	(0.12)	(0.11)	(0.10)	(0.10)
Size of the parent firm [a]	0.01	0.02	0.03	0.08	0.04	0.02
	(0.04)	(0.04)	(0.06)	(0.06)	(0.05)	(0.05)
Number of foreign operations [a]	-0.18	-0.04	0.06	0.19	0.13	0.08
	(0.13)	(0.14)	(0.18)	(0.19)	(0.17)	(0.17)
Ownership structure	-0.20	-0.26	-0.72*	-0.63*	-0.38	0.10
	(0.26)	(0.26)	(0.33)	(0.31)	(0.29)	(0.32)
Asset seeking	0.02	0.02	0.16+	0.15+	-0.04	-0.07
	(0.06)	(0.06)	(0.08)	(0.08)	(0.07)	(0.07)
Market Expansion	0.20*	0.17*	0.07	0.01	0.04	-0.02
	(0.07)	(0.07)	(0.10)	(0.10)	(0.09)	(0.09)
R^2	0.25	0.29	0.27	0.27	0.24	0.31

Note: N = 82

+ p < .10, * p < .05, ** p < .01

[a] Natural log of the variables

Standard errors in parentheses.